

**REPORT OF THE AUDIT OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT – 2009 UNMINED COAL TAXES**

**For The Period
September 1, 2009 Through September 15, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT – 2009 UNMINED COAL TAXES

For The Period
September 1, 2009 Through September 15, 2010

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement – 2009 Unmined Coal Taxes for the Martin County Sheriff for the period September 1, 2009 through September 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$809,257 for the districts for 2009 unmined coal taxes, retaining commissions of \$30,913 to operate the Sheriff's office. The Sheriff distributed taxes of \$778,344 to the districts for 2009 unmined coal taxes. No taxes are due to the districts from the Sheriff and no refunds are due to the Sheriff from the taxing districts.

Report Comments:

2009-01	The Sheriff's Office Lacks Adequate Segregation Of Duties
2009-02	The Sheriff Should Process Unmined Coal Tax Collections Timely
2009-03	The Sheriff Should Properly Transfer Certificates Of Delinquency

Deposits:

The Sheriff's deposits were fully insured by the Federal Deposit Insurance Corporation.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
SHERIFF’S SETTLEMENT – 2009 UNMINED COAL TAXES	3
NOTES TO FINANCIAL STATEMENT	4
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENTS AND RECOMMENDATIONS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Kelly Callahan, Martin County Judge/Executive

Honorable Garmon Preece, Martin County Sheriff

Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the Martin County Sheriff's Settlement – 2009 Unmined Coal Taxes for the period September 1, 2009 through September 15, 2010. This tax settlement is the responsibility of the Martin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Martin County Sheriff's taxes charged, credited, and paid for the period September 1, 2009 through September 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Kelly Callahan, Martin County Judge/Executive
Honorable Garmon Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2009-02 The Sheriff Should Process Unmined Coal Tax Collections Timely
- 2009-03 The Sheriff Should Properly Transfer Certificates Of Delinquency

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

April 4, 2011

MARTIN COUNTY
GARMON PREECE, SHERIFF
SHERIFF'S SETTLEMENT – 2009 UNMINED COAL TAXES

For The Period September 1, 2009 Through September 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal Taxes	\$ 112,039	\$ 163,516	\$ 535,970	\$ 123,142
Additional Billings	95	135	456	105
Penalties	18	26	84	19
	<u>112,152</u>	<u>163,677</u>	<u>536,510</u>	<u>123,266</u>
Gross Chargeable to Sheriff				
	<u>112,152</u>	<u>163,677</u>	<u>536,510</u>	<u>123,266</u>
<u>Credits</u>				
Exonerations	9	13	43	10
Discounts	1,825	2,663	8,730	2,006
Delinquents:				
Unmined Coal	13,312	19,426	63,680	14,631
	<u>15,146</u>	<u>22,102</u>	<u>72,453</u>	<u>16,647</u>
Total Credits				
	<u>15,146</u>	<u>22,102</u>	<u>72,453</u>	<u>16,647</u>
Taxes Collected	97,006	141,575	464,057	106,619
Less: Commissions *	4,123	6,017	16,242	4,531
	<u>92,883</u>	<u>135,558</u>	<u>447,815</u>	<u>102,088</u>
Taxes Due	92,883	135,558	447,815	102,088
Taxes Paid	92,883	135,558	447,815	102,088
	<u>92,883</u>	<u>135,558</u>	<u>447,815</u>	<u>102,088</u>
Due Districts				
as of Completion of Audit	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on \$ 345,200

3.5% on \$ 464,057

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT

September 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Martin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
September 15, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Martin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of September 15, 2010, all deposits were covered by FDIC insurance.

Note 3. Tax Collection Period

The unmined coal tax assessments were levied as of January 1, 2009. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 8, 2010 through September 15, 2010.

Note 4. Interest Income

The Martin County Sheriff earned \$221 as interest income on 2009 unmined coal taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Callaham, Martin County Judge/Executive
Honorable Garmon Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Martin County Sheriff's Settlement – 2009 Unmined Coal Taxes for the period September 1, 2009 through September 15, 2010, and have issued our report thereon dated April 4, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01 and 2009-02 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Martin County Sheriff's Settlement – 2009 Unmined Coal Taxes for the period September 1, 2009 through September 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2009-03.

The Martin County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Martin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

April 4, 2011

COMMENTS AND RECOMMENDATIONS

MARTIN COUNTY
GARMON PREECE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period September 1, 2009 Through September 15, 2010

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of proper segregation of duties. The bookkeeper prepares all daily checkout sheets, prepares and signs all checks, maintains the receipts and disbursements ledgers and reconciles the bank accounts. Good internal controls dictate that the same employee should not handle, record, and process financial information. The Sheriff should segregate these duties or strengthen internal controls by routinely reviewing daily checkout procedures for accuracy, review the bank reconciliations, and ensure that all information posted to the financial statement is complete and accurate.

Sheriff's Response: We will initiate procedures to strengthen controls.

2009-02 The Sheriff Should Process Unmined Coal Tax Collections Timely

We noted the bookkeeper holds unmined coal tax collections for a period before batching and depositing those collections. Tax collections should be batched and deposited on a daily basis. Tax bills received on one day should be batched and deposited before the end of the following business day. If checks are held for a long period, they could become stale dated and risk not clearing the bank and are at an increased risk of loss or theft. Our testing revealed two unmined coal tax bills held for ten days before being batched and deposited. We recommend the Sheriff establish procedures to assure collections are timely batched and processed.

Sheriff's Response: We will comply.

STATE LAWS AND REGULATIONS:

2009-03 The Sheriff Should Properly Transfer Certificates Of Delinquency

KRS 134.122 requires the sheriff to file certificates of delinquency with the County Clerk at the time he turns uncollected tax bills over to the County Clerk. The Sheriff should also obtain a receipt from the County Clerk documenting the transfer. Tax bills were turned over to the County Clerk as required. However, we could find no evidence the Sheriff obtained a receipt for Transfer of Certificates of Delinquency from the County Clerk. The receipt for Transfer of Certificates of Delinquency from the County Clerk is evidence that the Sheriff's properly transferred uncollected tax bills to the County Clerk. We recommend the Sheriff obtain signed receipts from the County Clerk when transferring Certificates of Delinquency to the County Clerk.

Sheriff's Response: Due to confusion about new house bill, we didn't get this done. We will be sure this is done in the future.

